

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6638

BILL NUMBER: HB 1356

NOTE PREPARED: Feb 24, 2007

BILL AMENDED: Feb 23, 2007

SUBJECT: Developmental Disability Employment Tax Credit.

FIRST AUTHOR: Rep. Micon

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: The bill establishes the Developmental Disability Employment Tax Credit for taxpayers that employ individuals with developmental disabilities. It provides that the credit may not exceed 33% of the first \$6,000 paid to the employee during the first year of employment and 25% of the first \$6,000 paid to the employee during the second year of employment.

Effective Date: January 1, 2008.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit for employing developmentally disabled individuals. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: The bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax on individuals and corporations that employ persons who are developmentally disabled and meet certain other requirements regarding the wages and health benefits provided to these employees, and their employment tenure. The amount of tax credits that could potentially be claimed by employers each year is indeterminable. The fiscal impact of the bill could potentially begin in FY 2009.

There are almost 26,000 individuals who are "developmentally disabled" as defined under the bill. Potentially 10% to 15% of this population is currently employed, based on data from the Supported Employment Program operated by the Family and Social Services Administration. However, while these employed individuals receive competitive wages, the extent to which they receive health benefits in accordance with the requirements of the bill is unknown. Also, the number of developmentally disabled persons who are

employed and did not participate in the Supported Employment Program is unknown, but is expected to be a very small group. If 100 individuals are employed pursuant to the credit eligibility criteria of the bill each year, tax credits for their wages could potentially total \$150,000 to \$200,000 depending upon whether the employee is in the first or second year of employment with the taxpayer. This estimate assumes an annual wage of about \$10,000 based on the current minimum wage of \$5.15 per hour.

Background: The bill establishes a nonrefundable AGI Tax credit for wages paid by individual and corporate taxpayers to developmentally disabled employees, provided the following requirements are met.

(1) The taxpayer offers health insurance coverage to the developmentally disabled employee, if the taxpayer offers coverage to other employees who are not developmentally disabled.

(2) The developmentally disabled employee is paid compensation at least equal to the minimum wage or a wage comparable to that paid to employees who are not developmentally disabled based on the employee's training, skills and job classification.

(3) The developmentally disabled employee has been employed by the taxpayer for at least 90 days during the taxable year for which the taxpayer claims a tax credit.

The tax credit applies the first two years the developmentally disabled individual is continuously employed by the taxpayer. The credit is equal to 33% of the first \$6,000 in taxable wages paid to the employee in the first year of continuous employment; and 25% of the first \$6,000 in taxable wages paid to the employee in the second year of continuous employment. The credit eligibility criteria would allow more than one employer to claim the credit for an individual during the taxable year, provided each employer employs the individual for at least 90 days and meets the other eligibility requirements. The credit is not refundable, but excess credits may be carried over by the taxpayer to succeeding tax years. The credit may not be carried back. If the taxpayer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity.

Since the credit is effective beginning in tax year 2008, the fiscal impact likely would not begin before FY 2009. Revenue from the AGI Tax on corporations is distributed to the state General Fund. The revenue from the AGI Tax on individuals is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

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